

## Message Text

LIMITED OFFICIAL USE

PAGE 01 LISBON 00717 280423Z  
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03  
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03  
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07  
CEA-01 PA-01 PRS-01 /085 W  
-----071123 290412Z /66

R 271735Z JAN 78  
FM AMEMBASSY LISBON  
TO SECSTATE WASHDC 4540  
INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMCONSUL OPORTO  
AMCONSUL PONTA DELGADA

LIMITED OFFICIAL USE LISBON 0717

PARIS ALSO FOR USOECD

BRUSSELS ALSO FOR USEC

DEPARTMENT ALSO PASS TREASURY FOR SYVRUD; EXIM FOR LEIK; USDOC  
FOR NICHOL

E.O. 11652: N/A  
TAGS: EFIN, PO  
SUBJECT: NEW CENTRAL BANK CREDIT RESTRAINTS FOR 1978

1. SUMMARY: NOTING NEED FOR REDUCED EXTERNAL DEFICIT IN 1978, BANK OF  
PORTUGAL ON JAN. 19 NOTIFIED COMMERCIAL BANKS OF NEW CREDIT RESTRAINTS.

END SUMMARY.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LISBON 00717 280423Z

2. ACCORDING TO NEW POLICY ANNOUNCED BY CENTRAL BANK JAN 19,  
MONTHLY INDICATIVE CREDIT CEILINGS WILL BE ESTABLISHED FOR  
INDIVIDUAL COMMERCIAL BANKS. EACH MONTH CENTRAL BANK WILL NOTIFY  
COMMERCIAL BANKS OF BOTH THEIR INDICATIVE LEADING CEILINGS FOR  
FOLLOWING MONTH AND THEIR TENTATIVE CEILINGS FOR SUBSEQUENT TWO  
MONTHS. ALTHOUGH CEILINGS ARE ONLY INDICATIVE, CENTRAL BANK WARNS  
THAT THEY MAY BECOME MANDATORY. PREFERENTIAL CREDITS (IE.,

THOSE FOR SELECTED INVESTMENTS AND MEDIUM EXPORT FINANCING)  
WILL BE EXEMPT FROM INDICATIVE CEILINGS.

3. FOR JANUARY 1978, OUTSTANDING CREDITS FOR EACH BANK MAY  
BE NO MORE THAN 5 PERCENT ABOVE BANK'S AVERAGE OF JULY-OCTOBER 1977.  
FEBRUARY AND MARCH CEILINGS TENTATIVELY SET AT 4.1 AND 5.5  
PERCENT, RESPECTIVELY, ABOVE BASE (JULY-OCT 77 AVERAGE).  
PREFERENTIAL CREDITS ARE EXCLUDED IN CALCULATIONS OF BASE AS  
WELL AS CEILINGS.

4. COMMENT: REASONS CITED BY CENTRAL BANK FOR NEW CREDIT GUIDE-  
LINES ARE THREEFOLD. FIRST IS RECOGNITION THAT INTEREST RATE  
AND DISCOUNT POLICY PURSUED LAST YEAR WERE INADEQUATE TO PREVENT  
SPECULATIVE IMPORT FINANCING. SECOND IS NEED TO CURTAIL  
CREDIT EXPANSION DURING DEC-FEB, A PERIOD IN WHICH GROWTH IN  
LIQUIDITY NORMALLY ACCELERATES BECAUSE OF GOP'S STEPPED-UP  
BORROWING FROM CENTRAL BANK TO FINANCE BUDGET DEFICIT. THIRD  
IS CENTRAL BANK'S DESIRE TO GAIN MORE EXPERIENCE IN APPLYING  
CREDIT CONSTRAINTS, EXPERIENCE THAT MAY BE NECESSARY TO IMPLEMENT  
THE ANTICIPATED AGREEMENT WITH IMF.

5. CENTRAL BANK ESTIMATES THAT TOTAL COMMERCIAL BANK CREDIT, MINUS  
PREFERENTIAL FINANCING, AVERAGED 450 BILLION ESCUDOS DURING BASE  
PERIOD JULY-OCTOBER 1977. THAT LEVEL REPRESENTED ABOUT THREE  
FOURTHS OF AVERAGE TOTAL DOMESTIC CREDIT DURING THAT PERIOD.  
ASSUMING A) SAME RELATIONSHIP OF BASE COMPONENTS TO TOTAL CREDIT  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 LISBON 00717 280423Z

AT YEAR-END 77, AND B) USING CENTRAL BANK'S ESTIMATE OF 647  
BILLION ESCUDOS FOR TOTAL YEAR END DOMESTIC CREDIT, CREDITS  
SUBJECT TO CEILING GUIDELINES COULD HAVE GROWN TO 485 BILLION  
ESCUDOS BY DEC 31,  
OR 14 PERCENT HIGHER THAN JULY-OCT BASE. NEW MEASURES, THEREFORE,  
COULD REPRESENT CUTBACK OF 10 BILLION ESCUDOS FROM END OF  
DECEMBER 77 TO END OF MARCH 78 FOR THE MONITORED CREDIT  
CATEGORIES. SUCH RESTRAINT PROBABLY WELL EXCEEDS REQUIREMENTS  
TO STAY WITHIN IMF-PROPOSED TARGET, IF WE ASSUME RESTRAINED  
CENTRAL GOVERNMENT BORROWING FROM CENTRAL BANK AND RELATIVELY  
NORMAL GROWTH IN NON-MONITORED CREDIT CATEGORIES.

6. REASON FOR SEVERITY OF SQUEEZE IS NOT ALTOGETHER CLEAR.  
THE CENTRAL BANK/GOP MAY HAVE AIMED FOR LOWER THAN "NECESSARY"  
CEILINGS SIMPLY TO RETAIN GREATER FLEXIBILITY OF RESPONSE TO  
UNFORESEEN DEVELOPMENTS.  
OKUN

LIMITED OFFICIAL USE

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** CENTRAL BANK, CREDIT, FINANCIAL PROGRAMS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 27 jan 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1978LISBON00717  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D780043-0654  
**Format:** TEL  
**From:** LISBON  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1978/newtext/t19780115/aaaaamca.tel  
**Line Count:** 111  
**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Message ID:** e0b070df-c288-dd11-92da-001cc4696bcc  
**Office:** ACTION EUR  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 05 may 2005  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** N/A  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 3702334  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** NEW CENTRAL BANK CREDIT RESTRAINTS FOR 1978  
**TAGS:** EFIN, PO  
**To:** STATE USOECD MULTIPLE  
**Type:** TE  
**vdkgvwkey:** odb://SAS/SAS.dbo.SAS\_Docs/e0b070df-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014